

~~CONFIDENTIAL~~

SOVIET BLOC ECONOMIC PENETRATION OF INDONESIA

Summary

Indonesian trade in 1955 with the Sino-Soviet Bloc, although still a small share of its total trade, showed a sizable increase over previous years, reaching a level of almost 5 percent of total trade turnover compared with about 1.6 percent in 1954. During the past several years, Bloc countries have increased their activity in the promotion of trade and other economic relations with Indonesia. These efforts have included the signing of trade agreements, the establishment of permanent trade missions, participation in the Djakarta International Trade Fairs and, more recently, offers of technical assistance for Indonesian economic development.

To date, the Sino-Soviet Bloc has provided Indonesia with known credits totaling \$112.3 million. A major part of this total arises from a \$100-million credit agreement signed with the USSR in September 1956 subject to parliamentary ratification by both countries. (This agreement has not yet been confirmed by either government.) The Soviet credit program will undoubtedly involve large shipments of capital equipment to Indonesia. In addition, following the pattern established in India and Afghanistan, Soviet technicians will probably be sent to man the installations in their initial phase of operations and to train Indonesians in the use of the equipment.

Prior to the signing of the Soviet credit agreement in September 1956, Bloc technical assistance to Indonesia was limited to a number of small-scale projects which are currently in various stages of construction and installation. These projects include: a sugar refinery, a canvas-producing factory, a tire factory, and an enamelware factory. Under the Soviet credit agreement, however, technical assistance is to be extended to large-scale development projects such as hydroelectric installations, coal mines, and the development of nonferrous metal ore deposits, all of which have been given a high priority by the Indonesian Government in its industrialization program. The Soviet mission which is scheduled to begin survey work on these projects in 1957 will be in a position to promote Soviet methods and practices in an important part of the Indonesian development program.

Indonesia's economic development has been severely handicapped by a lack of capital and a shortage of skilled personnel. The Indonesian Government, in line with its neutralist policy, has indicated its willingness to receive assistance from any source provided it contains no political or military commitments. It will probably continue to seek a large share of its capital and technical assistance requirements

~~CONFIDENTIAL~~

from the Free World. But should the Bloc countries continue to make offers which conform to Indonesia's expressed aims, Bloc aid will also be accepted, barring changes in Indonesia's position as a result of the Soviet intervention in Hungary.

Apart from the recently canceled departure of Indonesian students to the USSR and Poland due to the "tense" international situation, no official reaction affecting Indonesian-Bloc trade relations has been observed.

Distribution:

Orig. and 1--OCB (Att: [REDACTED])

1--Ch/E

1--D/S, [REDACTED]

1--S/TF

2--OAD/RR

25X1A9a

25X1A9a D/S/RR: [REDACTED] dh/4505 (11 December 1956)

25X1A9a Revised: OAD/RR/ [REDACTED] 8666 (12 December 1956)